MEMORANDUM
June 28, 2006

TO: County CDBG Housing Allocation Grantees and Program Administrators

FROM: Bill Parker, MSHDA HOME/CDBG (Housing) Program Specialist

RE: Changes to MSHDA Homeowner Rehabilitation Requirements

The purpose of this memorandum is to describe changes to MSHDA's guidelines regarding homeowner rehabilitation loans through the county CDBG Housing Allocation Program. These changes are occurring in response to a dialogue between MSHDA staff and several County Allocation grantees and third party administrators. Some of these County Grantees requested the ability to have forgivable loans. These were mostly Upper Peninsula counties, where they reported property values to be extremely low, and that CDBG funded improvements do not generally increase these property values. Changes are outlined below:

- Counties may choose to keep existing guidelines regarding deferred liens or may choose to allow loans that are forgiven under specific terms;
- An alternative allowing forgivable loans may be selected by counties
- Changes in a County's lien policy must be approved by the County Board of Commissioners;
- The MSHDA 25% leverage requirement is eliminated for counties that maintain deferred loans; and
- The limit of 15% CDBG housing dollars for "Emergency" rehabilitation will not apply to Program Income funding.

Counties may choose to keep existing lien guidelines

Counties may choose to keep the same guidelines MSHDA currently has. This requirement is that CDBG assistance for Homeowner rehabilitation of $2,500 or more, must at a minimum be in the form of a deferred loan that is repayable at time of sale or transfer, or if the property is no longer occupied by the borrower. Repayment of the funds, however, is limited to the proceeds of the sale of the property.

An alternative allowing forgivable loans can be selected by counties

After July 1, 2006, counties may choose to offer the assistance as a forgivable loan. The terms of forgiveness would be limited to the following:

- Years 0-5, No Forgiveness (lien is deferred)
- Years 6-15, Loan is forgiven by 10 percent per year (or 1/120 per month) until totally forgiven at the end of year 15.

Changes in a County's lien policy must be approved by the County Board of Commissioners

Prior to changing the local lien policy, the county governing board must approve these changes through a board resolution at a public meeting. MSHDA will require that County grantees certify their informed approval of such a policy change by acknowledging that having forgivable instead of deferred repayable loans will result in the county both serving fewer households and a reduction in administrative funds available to the program because less program income would be received by the county. In order for the lien terms to take effect, the signed resolution and revised program guidelines must be submitted to the Office of Community Development at least 30 days prior to the proposed effective date. At a minimum, the resolution (a) must include the specified language, but it may include any other language in support of these changes that are deemed locally appropriate, and (b) specify an effective date. *Only loans closed after the effective date may be covered by a changed lien policy*. If the Office of Community Development does not act to reject or require modifications within 15 days of receipt of the resolution and program guidelines, the new local lien policy may go into effect. Please submit these requests to your Community Development Specialist.

The MSHDA 25 percent leverage requirement is eliminated for counties that maintain deferred loans

The county is under no obligation or expectation that it will change its lien policy. In fact, MSHDA Office of Community Development (OCD) continues to prefer that Counties have deferred loans, but we realize there are some challenges in selling this product, in some markets in the state. To recognize the leveraging value of deferred loans, MSHDA is eliminating the 25 percent leverage requirement for those counties that continue to offer only the deferred loan (i.e., the existing loan which is not forgivable, except to the extent that the loan cannot be repaid from the cash proceeds of sale), effective with grants effective on or after January 1, 2006. (2006-2007 grants seeking the 50 percent production bonus funding will still be required to demonstrate achievement of a 40 percent leverage target). *Counties that change to a forgivable loan program will be required to continue to document the 25 percent leveraging of funds for projects with non-CDBG dollars.*

The limit of 15 percent CDBG housing dollars for "Emergency" rehabilitation will not apply to Program Income funding

MSHDA is clarifying that OCD will not require that Program Income funds generated from Homeowner Rehabilitation loans be subject to the 15 percent cap for Emergency Rehabilitation projects. As a result, counties could potentially use all their Program Income funds for Emergency projects, but are reminded that the $5,000 cap on total uncommitted program income imposed by HUD remains in effect. MSHDA realizes PI expenditures are especially difficult to manage with multiple requirements, and desires to increase Counties' local flexibility in managing these funds.

Please contact your Community Development Specialist if you have any questions.